

SPECIAL REPORT

Banking Your Way

How you can start getting the most out of your accounts and credit cards, make things easier for yourself and reduce fees & charges.



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Setting Up Accounts

The way you setup your bank accounts to handle transactions can dramatically simplify your money management and may save you considerable fees.

Considering How to Manage Your Accounts

As a starting point we will consider how you would integrate the following accounts:

- Transaction bank account
- A second transaction account with one or more debit cards linked to it
- A credit card/s

You may also have savings accounts, home loan account etc. and we will consider these later. At this point we are interested in how you best handle the day to day transactions and how to use these accounts. At this point we will assume that your credit card/s are not "maxed-out".

The following system provides great flexibility while preventing you making impulsive purchases that will "blow" your budget.



You would operate these accounts as follows:

- Salary and income from investments and any other source are automatically credited to Account no 1. From this account periodic savings & payments to your home loan are deducted. At this stage no other periodic payments should be debited against this account.
- Each week you charge your debit card account to a predetermined value. This value may be a fixed amount or a value suggested by Budgets Get Real for that week. In a joint situation both partners may have their own card against this account. The benefit of a debit card is that you cannot over-spend your budget for the week. From this account you would make all living expenses, ATM withdrawals etc.
- This debit account should be with the same bank as your main account – means that there are no delays in transferring money electronically.
- Even though you can withdraw money against your credit card this is not recommended. You would immediately start incurring fees from the date of withdrawal. This does not make sense if you have money in your transaction accounts. The best way is not to activate the PIN on your credit card i.e. never take cash advances against this account.
- The secret to successfully managing your credit card is to never use it for impulse transactions. If you have difficulty controlling your spending the best way is to leave your credit card at home using only for purchases you have clearly decided in advance you truly need.

Setting aside the additional fees associated with having two transaction accounts for now (we will come to this later) you still need to avoid the fees associated with periodic payments from your accounts. They're substantial.

Lets start with your Credit Card

Start planning your accounts with a review of your credit card.

Your Credit Card Usage

Your credit card usage will generally fall into one of the following categories.

- **You pay your monthly bill in full each month.**

To credit card companies you are a "transactor" a category which includes some 64% of credit card holders. You generally do not incur any interest charges on your card so the card interest rate is not generally an issue.

One good strategy is to forget about card rewards and select a card with no annual fees and a long grace period (during which you don't pay interest). In this case - the longer the grace period the better. Practically try not to go below 30 days – it will cause problems managing monthly bills. With a long grace period the interest rate becomes less important - however also try to get a low rate in-case you have a sudden unforeseen expense.



For disciplined high spenders there are opportunities for savings with a good rewards card. Unfortunately in many cases the high annual fees on many of these cards, and limitations on redemptions etc., mean that you may well be losing money. You really need to carefully analyse and adapt your spending habits to get full benefit from these cards.

■ **Your credit cards are rarely or never paid off in full.**

To credit card companies you are a “revolver”, continually paying interest on your card. You need a credit card that carries the lower interest rate possible. Don’t bother with rewards credit cards – you need the simplest no-frills card with the lowest interest rate and fees.

An important strategy, particularly if your current cards are “maxed out” is to transfer your outstanding balance to a new card with an interest free period and low interest rate thereafter. Then try and pay off the debt in the interest free period. The long-term interest rate is important particularly if you will be stretched paying off the cards. If necessary lock up your cards.



Credit cards can also be used to get cash advances. This practice should be avoided where possible – you pay full card interest from the date of withdrawal. It makes no sense to take money on credit card, often at up to 18% interest, if you have funds in another account possibly earning no interest. Nevertheless you may not have a choice – in which case look for a simple card with a low interest rate as well as low fees on cash advances. The simplest way to limit cash advances and avoid any such charges is to never request a PIN for cash advances on your card.

Choosing the Best Credit Card

A great way to decide on what card is best for you is to get a report from your local Consumer Association or Organisation.

UK -	http://www.which.co.uk/
USA -	http://www.consumersunion.org/
Canada -	http://strategis.ic.gc.ca/epic/site/oca-bc.nsf/en/home
New Zealand -	http://www.consumer.org.nz/
Ireland -	http://www.consumerassociation.ie/
Singapore -	http://www.case.org.sg/
Australia -	http://www.choice.com.au/

We recommend CHOICE at <http://www.choice.com.au>. CHOICE is the Consumer Association for Australia. We have included a number of links to International Consumer Organisations above.

These reports (currently \$5.95 for a one off report of some 60 cards) are completely independent of the banks, are not for profit and funded solely by subscriptions from consumers. The small cost of the report is insignificant of the time and charges you will save.

Rewards Cards

Note that there is a distinct difference between how you should use reward cards and other credit cards.

Reward cards work only when you try and put all your purchases on the card. To do this you must be able to pay off the monthly debt each month in full. Remember that the reason rewards are there is to encourage you to spend more (for more rewards, of course.)

Even if you can pay the monthly bill you should always ask :

*Can I spend the money better ? Do I really need this ?
Is there something I would really rather have or do instead ?*

For all non-reward cards remember there is no benefit in spending more. Your financial wealth may be better served by leaving your credit card at home and using it only for purchases you have really decided you need and can afford. Always try and avoid impulse purchases.

A budgeting program may help you analyse your cards in more detail – provided you have your purchase history in electronic form – otherwise it is probably not worth the effort of manually entering transactions.

Debit Cards

There are a number of reasons you should consider the use of debit cards

Debit cards provide many of the benefits of credit cards, but use your money instead of credit.

Why Consider Debit Cards?

- You are unable to get a credit card.
- You do not trust yourself not to impulsively spend on credit or you know you can overspend. Debit cards, correctly selected, are ideal in this situation. You have all the flexibility of a credit card but the restriction of not being able to spend money you don't have.
- You purchase over the Internet or phone. A possible risk is the potential loss of your money from credit card fraud.



I recently had an occasion where my credit card was fraudulently debited of a large amount while I was overseas. No on-line Internet purchase was involved. Fortunately I could easily prove the overcharge and was reimbursed within a few weeks. Without clear documentation I'm not certain what would have happened – certainly it would have taken a lot longer to resolve.

In addition there is the inconvenience of having to cancel your card, and your money is tied-up until any dispute is resolved. The banks take the disputed money out of your account and hold it "in trust" until the dispute is resolved. If the dispute is resolved in your favour the money is refunded to your account – often without interest being paid. This could well precipitate a significant cash crisis for you in some other way. It has been known for amounts, up to twice the notional card limit, to have been approved for withdrawal.

With debit cards you still have inconvenience if things go wrong however your maximum loss is limited to the funds in your account.

Selecting a debit card

Selecting a suitable debit card is not always straight forward and there are limited options. Most cards are issued by Visa and have been usually issued by many of the regional banks, building societies and credit unions and not the major banks.

Choice Magazine provides a free comparison of banks, building societies & credit unions. Use 'Buying guide: Picking the right bank account' to compare transaction account fees, interest rates and features. Unfortunately you will still need to analyse these results to get the best debit card for your uses.

We would suggest the following criteria:

1. Your debit card will be linked to a transaction account. You will keep topping up the balance in this account from another account most likely the account into which your salaries and other income are paid.
2. To simplify this and avoid delays in transferring funds both accounts should be with the same financial institution. Internet banking is highly desirable.
3. The account used to receive salary payments should be acceptable to your employer and not result in any delay in your obtaining the cleared funds. We will consider its fees structure later.
4. The debit card linked to your transaction account should have the flexibility of a credit card at minimum cost. You will usually have to pay a monthly account charge (typically \$5.00 per month). However, if you carefully manage your account there will often be no other charges.



A major factor is whether the following services are available, and then what charges (if any) apply :

- **Can you use your debit card for EFTPOS without charge?**
This is considered essential.
- **Can you use your debit card at your institution's own ATMs (for cash-withdrawals) without charge?**
Again, this is considered essential. Clearly the more ATMs your institution has in your area the better (and cheaper) it will be for you.
- **Can you use your debit card with other ATMs?**
There is always a charge (\$1.50 or more) for this convenience and which should be avoided as much as possible.
- **Do you pay a charge for checking your balance at your institutions ATM?** You shouldn't have to. Usually checking at other ATMs will result in a \$1.50 charge.
- **There should be no fees for Internet transactions, Internet enquiries and Internet Bill Pay (BPAY)**
Internet functionality and ability to download electronic statements is very desirable and will save you time and allow you to see at any time what is the balance in your accounts. (If you link the credit card into your internet account, you can constantly see how much is owing on this account too.)
- **There should be no need to keep a minimum ongoing balance in your debit account.**
This usually defeats the purpose of how the account will be operated.
- **Other criteria** like over the counter transactions, cheque accounts, phone banking, GiroPost etc. are generally not necessary unless you have a specific need. You may have to pay additional fees for these services – where they are available.

You will find that *only a few banks* can satisfy all of these criteria.

Putting it all together

How you operate your accounts will depend on your circumstances. There is no right way and you will need to review the structure as your circumstances change.

We discuss a possible structure for the case where you have existing credit cards with a balance you are having difficulty paying off. The example is designed to show the issues you should consider. Different structures will apply to different circumstances.

Before proceeding let us clearly state that Informed Choices Pty Ltd is not a financial planner and the following discussion shall not constitute financial advice. You should not rely in any way on the information provided and should seek professional financial planning advice before acting on any part of the following information.



The structure is as follows:

- A bank or other account into which salary is received.
- A transaction account with debit card facility selected as detailed above
- A credit card/s with outstanding balances that cannot be paid in full. You should review you credit cards and maybe consider consolidating your cards to a single card with better terms. Any card review will not change your strategy – other than make it easier for you to pay.

For simplicity, and purely to demonstrate the principles, we assume there is no home loan mortgage, personal loans, savings accounts etc. involved.

How then do we operate the various components?

The Credit Card/s

The important issue is to **reduce the balances as quickly as possible to minimise interest payments**. Always pay off the cards with the highest interest rate (not total outstanding) first. Try not to make any purchases on the card/s. Do not take them with you when you go shopping - that only adds to temptation.

The advice is sometimes given to “cut up your cards”. This can be bad advice. (There are less drastic ways to control impulsive spending - like putting your card in ice in the freezer.)

A good thing about credit cards is that you can immediately access money if you have a problem – even though you will have to pay it back at high interest.



It is assumed you have no other free funds, costing less than your credit card, that can be used. Any money you pay off your cards is still available. The reason you can't pay off your cards is because you don't have sufficient cash reserves. The unused balance on your cards gives you some form of reserve.

You should check if you have any interest free loans (eg. for furniture, electrical goods) **and when they are due and for how much**. The fees on these, if you fail to pay in full by the due date, can be crippling. You are usually best to pay these in full even if it means putting it on your credit card. Even one cent outstanding against an interest free loan can make you liable for significant fees.

If you cannot get a loan at reasonable rates, it may be beneficial to apply for another credit card simply to pay off the interest free loans. There is a simple rule: Never take out an interest free loan unless you are 100% certain you can pay it in full before it is due.

The usual winner from interest-free loans is either the retailer or the lender (even both), not the purchaser.

- You should always avoid taking cash advances against your cards.

Once have paid off your credit cards the strategy changes. Once you have some reserves to pay off the all the purchases on your credit card in full each month you can start putting some purchases back on your card – BUT NOT BEFORE. Avoid purchasing more than you can pay in full for the month. This way you can start to get a benefit from the interest free grace period on your card.

You might consider gradually linking periodic payments to your credit card. Linking these payments to a credit card does not have the problems that linking periodic payments to debit cards / transaction accounts does. With debit cards, if there is inadequate balance to pay the bill, a refusal charge of around \$40 results. This won't occur with a credit card managed within its limits.

With a little practice you can apply some excess cash to reducing other loans – however be warned that this will require careful management and a good understanding of your budget and forthcoming expenses.

The Debit Card + transaction account

Each week charge your debit card account to a predetermined value. This value may be a fixed amount or a value suggested by Budgets Get Real for that week.

In a joint situation both partners may have their own card against this account. From this account you would pay all living expenses, ATM cash withdrawals etc.

You will never link any periodic payments eg. rates, electricity, telephone, insurances to this account. With periodic payments you can never be certain exactly when they will come from your account. If there are insufficient funds you will get a refusal fee of around \$40.00.

The starting value each week should be enough to get you through the week to suit your budget plus a small safety margin. Since there are no one off items the amount should not change much from week to week. You might be thinking:

What happens if I overspend this account ? Go to do my grocery shopping, and don't have enough in the account to pay the bill at the checkout? That would be so embarrassing.

The point is to prevent you overspending and let you know immediately of the problem. Another way is, at the start of the week, to withdraw some cash and use it for incidentals. This way it is unlikely you wont have enough for the bill.

Always avoid using ATMs other than your institutions. It cheaper to know where all your free ATMs are.



Your main account

The balance of this account should increase each week from your salaries & other income, less transfers to your transaction account. The balance is then used to pay the following in order of priority.

- Bills you must pay such as home loan, rates, electricity etc.
- Other bills that can't be deferred
- Whatever you can pay of against credit cards and other loans – starting with the highest rate first. Pay these as much as you feel comfortable. Do not overpay these since you still may need some cash for unforeseen expenses.

A good technique is to use Budgets Get Real to formulate a payment plan for you and stick to this.

Once you are successfully saving the balance in your main account will increase. After it is over a few weeks expenses (considering any likely large bills) you should consider transferring the excess balance to an investment account for maximum return.

You may be tempted to take ATM withdrawals from this account. There is nothing wrong with this, however your control may not be as good as running these withdrawals through your transaction account.

The down side of this strategy is that more transactions on your main account may lead to higher fees. What type of account you chose for your main account should be optimised to the expected number of transactions per month.

The exact optimum you keep in your main account may vary monthly and really depends on the following factors:

1. The relative return for money in your main account & investment accounts. By leaving a minimum amount in your main account you may qualify for reduced fees.
2. Your expected costs for the next month and when these are due. Budgets Get Real can help you optimise these.
3. Difficulties, costs and delays transferring between main and investment accounts. The idea is not to keep swapping funds between these accounts.



Adding A Budget

The previous strategy makes controlling your spending less dependent on detailed budgeting. While we don't recommend it, particularly if you are cash strapped, it is possible to use the above principles without a budget or budgeting program.

Budgeting is a useful process of planning what you want to do with your money and your life, regardless of how large or limited your income is.

It can help you to eliminate debt and financial worry, giving you control over your personal finances (and your future!)

In this report we've spoken about [Budgets Get Real](#), a revolutionary money management system that makes budgeting quicker, easier and more accurate than ever before.

Budgets Get Real can save you more money because you can analyse how much certain parts of your lifestyle are costing you and where you need to change your spending to make the differences you want in your life.

We are so convinced that Budgets Get Real is the best personal finance system available that **we offer you an Ironclad 60 Day Money Back Guarantee.**

Try Budgets Get Real now, and experience the difference it can make to your personal finances.



About this Report

This report was prepared by Informed Choices, the makers of [Budgets Get Real](#) and [Clever with Cash](#).

Our motivation for creating this report, Budgets Get Real, and resources that promote responsible and informed money management was simple. We saw a need, and the need was this:

There is a need for everyone, regardless of age, race, gender, occupation, religion or level of income to be able to understand and manage their money effectively.

In order to do this properly we believe that you need two things: relevant information and good tools. They need to be easy to use and to understand. This is what we strive

to provide you with: simple (but not simplistic) resources that can be used to build your financial stability and understanding.

In short, we believe that everyone is capable of improving their position in life - and that there is an increasing urgency for you to take control of your money. We'd like to help you to achieve that stability.

[Budgets Get Real](#) contains tools to effectively manage & take control of your money. **[Clever with Cash](#)** provides you with the information to make informed decisions about your personal finances.

Discover a new way to take control of your money by visiting [Budgets Get Real](#) or [Clever with Cash](#) today

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