

Aussies lead world in personal debt

By Vanessa Tripodi

Australians are proud to be leaders when it comes to sporting achievements or new inventions, but the leading position no one wants to hold is that in the race to be the nation with the highest personal debt. Unfortunately for Australia, personal debt Down Under has overtaken even that of the typically credit-hungry U.S., according to Reserve Bank of Australia figures.

To compare Australia's position on the debt leader board to the U.S., each Australian adult is currently in debt to the value of around US\$56,000, compared to the debt of American adults of US\$44,000. Australians' mortgage, credit card debt and personal loans total over AU\$1.2 trillion, which is an increase of 71 per cent from just five years ago.

However, it is not simply the fact that Australia is leading the world in personal debt that deserves attention, but also the amount of debt. Thanks to recent stimulus packages and first homeowner boosts, Australia's personal debt has risen to 100.04 per cent of the annual GDP; this is the first time debt has exceeded 100 per cent, and Australians are now living beyond their means, often dangerously so. Interest rates in Australia have been low for some time, and the Australian government has been providing financial assistance to those who need it, meaning many Australians are now stretched very close to their limits in terms of debt. If interest rates keep rising as predicted, Australians could have a financial crisis of their own when they can no longer meet their repayments.

Some are also saying that Australians have reason to be worried because the Labor govt has maxed out the national credit card, too, so to speak. Offering Australians stimulus packages to the value of AU\$42 billion, the Australian government was proud at the time that these cash injections were some of the biggest, relative to population, in the developed world. However, this government spending has consumed the entire budget surplus and left the country with a substantial deficit.

With little chance of more government cash handouts now that the government, too, is heavily in debt, Australians need to be aware of how to manage their current debt and avoid accumulating any more.

Tips to reduce your debt:

1. Pay the minimum off on all of your credit cards but one. Choose a card with the highest interest rate to knock that out first, or the one with the lowest interest rate to pay it off faster. Then pay as much as you can off of this card, while paying the minimum on the rest of your credit cards. Once that targeted credit card is paid off, take the money you were using to pay it off and use it to pay off the next credit card, while still paying the next card's minimum, too. You won't miss the payments, as you're used to making them all, but you'll be able to reduce your credit card debt faster.
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3. Pay more than the minimum on your credit cards whenever possible. If you are able to pay more than the minimum on all your credit cards, or if you have just one card, then you'll be able to reduce your credit card debt, too. Paying just the minimum means that credit cards can take years to pay off, as the credit card issuer wants to keep you trapped in their card.

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Tips to avoid debt:

1. Cut down on binge buying. When you buy things you don't really need, you are eating into your weekly budget and these extra binge purchases usually go onto the credit card. Therefore, if you can plan your shopping and spending to avoid unnecessary purchases, you can also avoid unnecessary credit card debt.
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3. Use a debit card, not a credit card. Debit cards look and act the same as a credit card, but they are linked to your everyday transaction account, so you are spending your own money. There are no monthly payments to worry about or interest rate charges and you can enjoy the security of credit card payments online, over the phone or in person.
4. Create an emergency savings account. If you make regular contributions to a separate savings account each week, you can build an emergency fund to cover unexpected bills or emergency car repairs, for example. Then you don't have to put these costs onto your credit card or dip into your home mortgage overdraft.

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Just because Australia is leading the world in personal debt doesn't mean that your personal debts have to lead you into a financial crisis of your own. Instead, focus on reducing and avoiding credit card, home loan and personal loan debts to gain financial security.



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